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## **Investor Update**

Yesterday, October 8, 2002, the Tennessee Supreme Court ruled in the case, **Tennessee Small Schools System v. Tennessee Commissioner of Education et al.** by reversing a lower court's holding denying the plaintiffs' petition that teacher salaries must be further equalized and remanded to the lower court. Because the case is based on a state constitutional issue, the ruling is not subject to appeal.

Projected costs for implementing the court's decision fall between \$50 and \$400 million annually depending upon the remedy ultimately implemented. Implementation may require a multi-year phase-in. The Speakers of the General Assembly have asked the Attorney General to advise them of the specific actions the General Assembly must take to comply with the decree.

The Attorney General, Paul Summers, said in a short written statement: "The Court recognized ... that as long as constitutional requirements are met, determining how to fund teacher salaries and the level of those salaries are choices for the legislature to make. We will discuss with our state clients the ramifications of this decision and how to proceed from here."

The General Assembly will address the funding issue during its 2003 session that begins in January. The General Assembly will be required to develop a balanced budget that includes payment of all legal obligations, federally mandated obligations and operating expenditures.

The State is permitted to issue long-term debt for capital expenditures only. No long-term debt, including judgment bonds, can be issued for operating expenditures such as teacher's salaries.

For fiscal year 2002-2003, the State will continue to pay all of its obligations pursuant to the current appropriations legislation.

Investors can review the decision by going to: [www.state.tn.us/education/nr021008b.htm](http://www.state.tn.us/education/nr021008b.htm)